

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1923 - SB 2230

February 14, 2014

SUMMARY OF BILL: Defines “restricted-purchase license” as a driver license, restricted driver license, or other form of identification issued by the state indicating that the sale of alcoholic beverages to the holder is prohibited. Requires the courts to order the issuance of restricted-purchase licenses to persons convicted of DUI for certain specified periods of time following conviction for the purpose of prohibiting the sale of alcoholic beverages to persons convicted of DUI. Specifies the requirements and procedures for the Department of Safety and Homeland Security (DOS) to issue restricted-purchase licenses. Prohibits any licensed entity permitted to sell beer or alcoholic beverages from selling beer or alcoholic beverages to persons possessing restricted-purchase licenses.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – Exceeds \$413,300/Recurring
Increase State Expenditures - \$212,500/One-Time

Decrease Local Revenue – Exceeds \$196,200/Recurring

Other Fiscal Impact - There could be subsequent increases in state and local government revenue and other reductions in other state and local government expenditures due to the secondary economic impacts occurring as a result of behavioral changes prompted by passage of this bill. Due to multiple unknown factors, such as the extent of any behavioral changes that may occur as a result of this bill, the fiscal impacts directly attributable to secondary economic impacts occurring as the result of any behavioral changes cannot be quantified with reasonable certainty.

Assumptions:

- According to DOS, this bill will require changes to the driver license database. Based on information provided by DOS, the one-time increase in state expenditures for computer modifications is estimated to be \$212,500.
- Any fee revenue paid by convicted individuals to DOS for obtaining restricted-purchase licenses is assumed to cover any expenses incurred by DOS associated with producing and issuing the new restricted-purchase licenses.

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- DOS indicates in FY12-13 there were 15,568 first-offense DUI convictions; 2,951 second-offense convictions; and 890 third-offense convictions; for a total number of 19,409 (15,568 + 2,951 + 890) convictions. This number is assumed to remain constant into perpetuity.
- Prohibiting individuals convicted of DUI from purchasing beer and other alcoholic beverages will reduce taxable sales of such alcoholic beverages. The extent of any reduction in taxable sales is dependent upon several unknown factors, including but not limited to, the quantity of alcoholic beverages that would otherwise be purchased in any given year by the convicted individuals, the retail sales prices that would have been paid for such purchases of alcoholic beverages, the extent to which convicted individuals request other non-prohibited individuals to make purchases of alcoholic beverages on their behalf, and the extent to which persons convicted of DUI will be able to purchase alcoholic beverages in restaurants and bars without being requested to show proper identification. Given the extent of unknown factors, determining a precise estimate for reduced taxable sales is difficult. However, the reduction in taxable sales is reasonably estimated to exceed \$2,500,000 per year statewide (this estimate is equivalent to approximately 50 percent of the 19,409 convicted individuals purchasing a minimum of \$258 worth of alcoholic beverages each year, or \$4.96 each week, in the absence of the bill that such individuals will be prohibited from purchasing under the provisions of the bill).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% $[(5.5\% / 7.0\%) \times 4.603\%]$.
- The net recurring decrease in state sales tax revenue is estimated to exceed \$168,670 $[(\$2,500,000 \times 7.0\%) - (\$2,500,000 \times 7.0\% \times 3.617\%)]$.
- The recurring decrease in local government revenue is estimated to exceed \$68,830 $[(\$2,500,000 \times 2.5\%) + (\$2,500,000 \times 7.0\% \times 3.617\%)]$.
- At least 15 percent of the retail sales price paid for any alcoholic beverage consists of other alcoholic beverage taxes that have been levied on the products prior to retail sale and passed on to the purchasing customer; the revenue from such taxes is apportioned among the state and local governments. Therefore, an additional recurring decrease in tax revenue estimated to exceed \$375,000 $(\$2,500,000 \text{ taxable sales} \times 15.0\%)$ per year.
- Total combined collections for the alcoholic beverage tax, the mixed drink tax, and the beer tax was \$138,920,800 in FY12-13 (according to the Governor's proposed budget document for FY14-15). This amount is assumed to remain constant into perpetuity.
- Of the \$138,920,800 in FY12-13 collections, \$47,179,000 (or 33.96 percent) was apportioned to local governments; and \$91,741,800 (or 66.04 percent) was retained by

the state. These apportionment rates are assumed to remain constant into perpetuity. As a result, a recurring decrease in state revenue estimated to exceed \$247,650 (\$375,000 x 66.04%); and a recurring decrease in local government revenue estimated to exceed \$127,350 (\$375,000 x 33.96%).

- The total net recurring decrease in state revenue as a result of this bill is estimated to exceed \$413,320 (\$168,670 in sales tax + \$247,650 in other alcohol taxes) per year.
- The total recurring decrease in local government revenue as a result of this bill is estimated to exceed \$196,180 (\$68,830 in sales tax + \$127,350 in other alcohol taxes) per year.
- Based on information provided by the Alcoholic Beverage Commission, any change in the number of entities that sell beer or other alcoholic beverages as a result of this bill is considered not significant.
- There will not be a sufficient number of prosecutions for selling alcoholic beverages to persons prohibited from the purchase of such beverages for state or local government to experience any significant increase in revenue or expenditures.
- There could be subsequent increases in state and local government revenue and other reductions in other state and local government expenditures due to the secondary economic impacts occurring as a result of behavioral changes prompted by passage of this bill. Increases in revenue may occur if fewer people are injured or killed by individuals that would otherwise drive while impaired. Reductions in state and local government expenditures may occur if there are fewer roadway accidents that law enforcement entities would have to otherwise dedicate resources towards. Due to multiple unknown factors, such as the extent of any behavioral changes that may occur as a result of this bill, the fiscal impacts directly attributable to secondary economic impacts occurring as the result of any behavioral changes cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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